RESERVE BANK OF INDIA

IIBF

CENTRAL BANKING

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RESERVE BANK OF INDIA (RBI)

- **The Reserve Bank of India (**RBI) is the **central bank of India** whose primary function is to **manage and govern the financial system** of the country.
- It is a **statutory body** established in the year **1935** under the **Reserve Bank of India Act, 1934**.
- The central bank regulates the issue and supply of the Indian rupee.
- The central bank plays the role of the bankers' bank and regulates the banking sector.
- The head office of the RBI, in Kolkata when the bank was established, was shifted to Mumbai in 1937.
- Originally, the bank was privately owned. However, after Independence, it was nationalised in 1949 and is now fully owned by the Government of India.

RESERVE BANK OF INDIA: ORGANIZATIONAL EVOLUTION

TRADITIONAL FUNCTIONS of Central Banks are:

1. Note issue function and
2. Acting as a banker to government

OTHER FUNCTIONS

- Holding of cash reserves of commercial banks,
- Rediscounting their bills and
- Managing clearing houses,

Public criticism of the currency and exchange system

Efforts at setting up a Central Bank in India were renewed in view of the public criticism of the currency and exchange system that surfaced in early twentieth century.

Hilton Young Commission

The Royal Commission on Indian Currency and Finance popularly known as the **Hilton Young Commission** recommended, in 1926, that the divisions of functions and responsibilities for control of currency and credit should be ended.

The Commission suggested the establishment of a Central Bank to be called the Reserve Bank of India.

The Reserve Bank of India Act

- The Reserve Bank of India Act (RBI Act) came into force on January 1, 1935.
- The RBI was inaugurated on April 1, 1935 as a shareholders' institution.
- The Act provided for the appointment of the Governor and two Deputy Governors by the Central Government.

Nationalization of RBI

The RBI was **nationalized on January 1, 1949** in terms of the Reserve Bank of India (Transfer to Public Ownership) Act, 1948.

The **core functions** of the RBI, as laid down in the statutes are:

I. Issue of currency,
II. Being banker to government, including the function of debt management, and
III. Being a banker to commercial banks.

Maintaining the external value of the rupee

- The RBI, as a Central Bank, has always performed the function of maintaining the external value of the rupee.
- **Historically, the rupee was linked with pound sterling**.
- In September 1975 the rupee was delinked from pound sterling and its value was determined with reference to a basket of currencies until 1991.
- Then rate regime transited from a basket of currencies to a market-based system in March 1993.

Bankers' Bank

The RBI's responsibility as bankers' bank was two-fold.

- **First,** it acted as a source of reserves to the banking system and served as the lender of last resort in an emergency.
- **Second,** and more important responsibility, was to ensure that the banks were established and run-on sound lines with the emphasis on protection of depositors' interest.

Role of banking crisis

- The emphasis on a creating a sound banking system partly emerged from the experience of the banking crisis in 1913 which exposed major weaknesses in the banking system, such as,

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maintenance of low reserves and large volumes of unsecured advances.

- Thus, regulation of the banking system was considered essential to maintain stability in the economy
- Earlier, banks were governed by the Indian Companies Act, 1913
- As the bank failures increased, the need for a statutory control arises. Consequently, a special legislation called **the Banking Companies Act** was passed in March 1949, which was renamed as the **Banking Regulation Act in March 1966.**

Development role of the RBI

The main objective of development role of the RBI has been to raise the **savings to GDP ratio** to facilitate a higher level of investment necessary for breaking the vicious circle of poverty and facilitating the growth process.

For performing this role attention of the Reserve bank is required

- particularly in the absence of efficient financial intermediation,
- lack of depth in capital market and
- prevalence of a large segment of indigenous banking.

- The Reserve Bank also took the responsibility of promoting growth with a view to raising the income levels of population.
- Higher levels of saving contribute to the saving potential of the economy which in turn stimulates economic growth.

National Bank for Agriculture and Rural Development (NABARD)

- The National Bank for Agriculture and Rural Development (NABARD) in 1982 with the objective of extending refinance to institutions catering to short-, medium- and long-term finance for agriculture.
- The Reserve Bank also actively promoted financial institutions to help in developing the Government securities market.
- The Discount and Finance House of India (DFHI) was set up in 1988;
- Primary dealers were promoted in the late 1990s; and
- The Clearing Corporation of India Ltd. (CCIL) was incorporated in 2001
- BCSBI set up in 2006
- National Payment Corporation of India Ltd
    - To upgrade the financial infrastructure in respect of clearing and settlement of debt instruments and foreign exchange transactions.
    - The Board for Regulation and Supervision of Payment and Settlement System was constituted in 2005, and the Banking Codes and Standards Board of India (BCSBI) was set up in 2006 to develop a comprehensive code of conduct for fair treatment of bank customers

Expansion of Banking

- In the initial years of the RBI, considerable progress was made in extending the banking system across the country, but there was continuing concern about the overall accessibility of banking to the needy.
- In terms of outreach, many rural and semi-urban areas were yet to be covered by banking services.

- The transformation of the **Imperial Bank of India into the State Bank of India** in July 1955 was mainly done to extend bank branches across the country to stimulate banking activity.
- The branch expansion of banks in the post-nationalization period was never done in the banking history.
- The credit goes to the policy makers that widening and deepening of the banking system addressed the issue of **"financial inclusion".**

Development of the Payments System

- The development of a payments system has been undertaken by most central banks.
- It is well recognized that an efficient payment and settlement system is pre-requisite for a well-functioning modern financial system.
- Therefore, in recent years, central banks have been making efforts to upgrade payments and settlement systems utilizing the latest technology.
- Historically, in Indian economy the widespread use of cash in the settlement of most financial transactions.
- Hundis were used as instruments of remittance, credit and trade transactions.
- In modern times, with the development of the banking system and higher turnover in the volume of cheques, the need for an organized cheque clearing system emerged.
- In recognition of the importance of payment and settlement systems, the RBI had taken the task of setting up a safe, efficient and robust payment and settlement system in the country
- Accordingly, it constituted various committees **(Rangarajan Committee, Saraf Committee, Patil Committee etc.)** to guide the use of information and communication technology (ICT) for the

technological transformation of the banking system in general and in developing a sophisticated payment systems in particular.

- The non-cash, non-paper payments, over a period of time have been put in place by the Reserve Bank to meet the remittance requirements of different segments of users.

Different Methods to Transfer Fund Online

- Immediate Payment Service (**IMPS**)
- National Electronic Funds Transfer (NEFT)
- Real-Time Gross Settlement (RTGS).

IMPS

The transfer of funds is completed immediately via IMPS. You can transfer money 24x7 by using this method. IMPS can be completed by using internet banking or mobile banking.

NEFT

Under **NEFT**, you can transfer funds from one bank branch to another bank branch that is participating under the scheme.

RTGS

Another payment mode that occurs in real-time and on a gross basis is **RTGS**. RTGS is mainly used for higher value transfers that require immediate clearance. RTGS transactions can be completed only during hours.

Aadhaar Enabled Payments System (AEPS)

The Aadhaar Enabled Payments System (AEPS) facilitates operations from Aadhaar seeded bank accounts using biometric authentication of customers.

Other significant segment of retail electronic payments is RuPay cards.

Rupay Card is an Indian domestic card conceived and launched by NPCI in 2012. It was introduced in the Indian payment system to reduce the monopoly of foreign gateways like Visa and MasterCard because these are foreign companies or American companies and their commission is high.

Cyber Security Framework in Banks

- Increase in the use of Information and Technology by banks in operational areas especially in product delivery channels particularly in payment systems.
- This leads to increase in the number, frequency and impact of cyber incidents/attacks in the recent past necessitating the urgent need for a robust cyber security/resilience framework in banks and to ensure adequate cyber security preparedness among banks on a continuous basis.

For this, the RBI has issued comprehensive instructions on cyber security framework in June 2016.

I. The instructions have advised banks to immediately put in place a Board approved cyber security policy distinct from the broader IT policy/IS security policy of a bank,
II. set up **Security Operations Centre** (SOC) for continuous surveillance of cyber threats,
III. address network and database security,
IV. protection of customer information,
V. cyber crisis management plan, cyber security preparedness indicators,

VI. sharing of information on cyber security incidents with RBI, assessment of gaps in cyber security preparedness,
VII. cyber security awareness stakeholders/top management/board, etc.

RBI maintains continued vigilance in ensuring the safety, security and soundness of the payment and settlement systems, emphasizing at the same time customer safety and convenience.

Relationship of the RBI with the Government

- The RBI is fully owned by the Central Government.
- **Section 7** of the RBI Act 1934 provides the role of the Central Government in the management of the affairs of the Bank.
- **Sub section (1)** empowers the Central Government to give directions in public interest to the Bank after consultation with the Governor of the Bank.
- **Section 7(2)** The overall control over the affairs of the Bank rest on the Central Board of the Bank

The Monetary-Fiscal Interface

- Central Banks in developing countries to act as debt managers of their respective governments.
- Central Banks have, financed governments through monetization and when the need arose for expansionary fiscal policy.
- Such financing has predictable inflationary consequences for the economy.
- **In 1951, with the onset of economic planning, the functions of the RBI became more diversified.**
- The RBI had to participate in the nation building process

- The provisions of the Reserve Bank of India Act, 1934 authorize the RBI to grant advances to the Government, repayable not later than three months from the date of advance.
- The RBI also created additional ad hoc Treasury bills whenever funds were required by the Government.
- There was a significant change in thinking regarding overall economic policy during the early 1990s, that reduced direct role of the Government in the economy.
- The participation by the RBI in primary auctions of the Government has also been discontinued with effect from April 1, 2006 under the provisions of Fiscal Responsibility and Budget Management Act, 2003 (FRBM).
- Further, fiscal dominance on monetary policy formulation has significantly reduced in recent years with the onset of:

I. A fiscal consolidation process (Fiscal consolidation is **a reduction in the underlying fiscal deficit**)
II. withdrawal of the RBI from the primary market of Government securities and
III. the proposed legislative changes permitting a reduction in the minimum Statutory Liquidity Ratio,

Thus, one can argue that effective separation of monetary policy from debt management is more a consequence of overall economic policy thinking rather than adherence to a particular view on institutional arrangements

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RESERVE BANK OF INDIA: STRUCTURE AND GOVERNANCE

- The Reserve Bank of India Act, 1934, specifies that the Bank is a corporate body with special powers and obligations for serving national interest.
- The Act provided for in-built flexibility, extra powers to the Bank in extraordinary circumstances.
- The primary objective of the Reserve Bank is to ensure growth with price stability.

The major events for the development of Reserve Bank were:

I. War financing
II. Transforming the domestic economy (which is characterized by low per capita income and weak financial system into a more versatile and sophisticated financial system),
III. Inception of development planning since 1951,
IV. The nationalization of the banks in 1969 and the consequent widespread expansion of the banking network across the country,
V. The opening up of the economy in 1991 and the challenges of globalization and the efforts at effectively integrating the domestic economic system in general and the financial sector in particular with the global economy,
VI. The developments in the international financial architecture (**collective governance arrangements at the international level for safeguarding the effective functioning of the global monetary and financial systems”**) triggered by the International Monetary Fund (I.M.F.), the World Bank and the Bank for International Settlements (BIS).

VII. The global developments in central banking theory and practices of monetary policy operating procedures and practices.

As a result, the functional responsibilities of the Bank have enlarged considerably; the Bank has started modulating its organizational activities in line with the developments taking place from time to time.

Structure and Governance (1920s to1940s)

- The government was unable to manage the currency and exchange rate in line with public expectations of the Indian economy under the British Rule.
- The Royal Commission on Indian Currency and Finance, 1926 recommended the transfer of the control of currency and credit functions from the Government and proposed the constitution of a Central Bank called the **Reserve Bank of India** for undertaking these functions.
- The Act provided for constitution of a Central Board of Directors to be entrusted with the general superintendence and direction of the affairs and business of the Bank.

The Board consisted of:

I. Governor,
II. Two Deputy Governors (appointed by the Governor General-in-Council),
III. Four Directors (nominated by the Governor General-in-Council),
IV. Eight Directors (elected on behalf of shareholders), and
V. One Government official (nominated by the Governor General-in-Council but with no voting power).

The organizational structure of the Bank comprised:

Central Office

It included:

- **Secretary's Section,** responsible for the secretarial work for the Governor and the Central Board,
- Management of public debt,
- Ways and means requirements of Central and Provincial Governments
- Matters affecting policies of the Bank
- **Chief Accountant's Section** that maintained and supervised the Bank's accounts in the issue and Banking Departments, dealing with the expenditure matters,
- Remittance of treasure,
- Distribution of notes and coins, etc., besides managing staff, personnel and premises.

Agriculture Credit Department

The department examined the problems of agricultural credit, and also coordinated operations of the Bank with the agencies engaged in extending such credit.

Exchange Control Department

- For proper handling of the economic and financial problems faced by the country during the Second World War a specialized department to take control over the foreign exchange transactions is established known as the **Exchange Control Department constituted in 1939.**

- In view of the transfer of control of currency and the central banking functions from the Imperial bank and with a view to ensuring smooth execution of these diverse responsibilities, the Reserve Bank inherited most of its staff from the office of Controller of Currency, Government of India and the Imperial Bank.
- Separate recruitment policies were designed for the Cash Department. The formulation of policy was with the top management of the Bank.
- **Sir C.D. Deshmukh** appointed as the first Indian Governor on August 11, 1943 till end-June 1949 provided a stabilizing force against the backdrop of:

a. Uncertainties of frequent political power transfers,
b. Dismal growth prospects,
c. After-effects of partition of the country,
d. Shift in taxation policies directed towards social causes, Promote production and investment.

- In order to understand the underlying issues and aid policy making, it is necessary to collect, compile and process crucial data relating to money, finance, banking, foreign exchange and other macroeconomic developments.
- The research led to a number of publications. These include periodicals and reports such as **Monthly Statistical Summary,** Report of the **Central Board to the shareholders**, Weekly Report to the Committee of **Central Board on financial conditions**, Review of **Cooperative Movement** in India.
- Further, several special studies on national and international finance, sterling investments in India, repatriation of India's sterling debt, and compilation of India's international balance of payments and post-War planning, etc., were also initiated.

- In recognition of the expansionary pressures, major organizational restructuring took place in August 1945. The agricultural credit department (ACD) was reorganized into three separate sections, viz.,

i. **Agriculture Credit Section**,
ii. **Statistical and Research Section** to undertake various studies in monetary and fiscal areas, and
iii. **Banking Section** that took over the functions of maintenance of records of scheduled banks' daily balances, recovery of penal interest on shortfall in statutory balances and dealing with loan applications of scheduled banks from the Central Office of the Bank.

Department of Research and Statistics

The Statistical and Research Section upgraded into the Department of Research and Statistics (DRS). It has two separate divisions, namely,

1. Economic Intelligence and
2. Economic Research

The purpose of the divisions:

- Organizing data compilation,
- Analysis,
- Publishing research papers,
- Providing inputs for policy formulation and
- Advising the Government on economic issues.
  - The Reserve Bank's active participation in the consultations and deliberations for establishment of the **International Monetary Fund (IMF)** and the **International Bank for Reconstruction and Development (IBRD).**

- The Government of India, in consultation with the Reserve Bank, appointed one Executive Director for India each for the IMF and the World Bank.
- Realized the relevance of compilation of Balance of Payments Statistics for India. for this a **Balance of Payments Division** was created within the **Department of Research and Statistics in 1948.**
- This Division ensured compliance with the obligation to supply information and statistics to the IMF by the Reserve Bank.
- **The year 1949** marked the beginning of two significant events in the **banking history of India**,

  1. **The nationalization of the Reserve Bank and**
  2. **Passing of the Banking Companies Act, 1949.**

- **The nationalization of the Reserve Bank of India** reorienting the Bank's operations towards meeting the aspirations of Independent India
- **Banking Companies Act, 1949** empowered the Reserve Bank with comprehensive statutory framework for supervision and regulation of the entire banking system.

The provisions of the Act included:

- Control over policies of the banks regarding advances
- Comprehensive licensing system
- Submission of periodic returns by the banks
- Preparation of inspection reports based on scrutiny of books and accounts of the banks by the reserve bank.

Significantly, the Act also required the Reserve Bank to prepare and present a statutory annual report to the Government on **"Trend and Progress of Banking in India".**

RESERVE BANK OF INDIA: MAJOR ORGANIZATIONAL AND FUNCTIONAL DEVELOPMENTS OVER TIME (1950'S ONWARDS)

The organizational changes that occurred in the Reserve Bank over the years broadly reflect the changing functional role of the Reserve **Bank in response to:**

- The changing roles of Central Banks across the globe,
- The broad directions/philosophy of State as enshrined in the Indian Constitution, and
- The financial, social and equity requirements of the Planning process in India.

Developments during 1950s to 1970s

The Reserve Bank of India was nationalized in 1949.

The enactment of the Banking Regulation Act in 1949 has been vested the Reserve Bank with extensive powers of **supervision and control** over commercial and co-operative banks as well as other financial intermediaries, viz., non-bank financial institutions and developmental financial institutions.

The immediate period preceding the 50s recorded landmark developments in terms of:

- Setting up of the Rural Banking Enquiry Committee (1949) which constituted a milestone in the field of rural finance, and
- The establishment of the Industrial Finance Corporation in 1948 for catering to the long-term financial requirements of the industrial sector.

Some other important developments:

- The framing of the Indian Constitution in 1950 with the Directive Principles of State Policy serving as a guide post for State Policy,
- Guide the planning era in 1951 with the objective of achieving rapid economic and social development.
- The First Five Year Plan suggested that financial and physical controls were necessary as a part of price policy.
- As the economic system progressed, the financial system was increasingly called up on to meet the financial needs of the economy. This shift in policies required that the operations of the financial system should be consistent with the priorities laid down in the Five-Year Plans.
- The planning process involved mobilization of resources on a large scale and channelizing them in to the most productive sectors of the economy, at the same time keeping in view the socio-economic goals.
- The Planning Commission was established in 1951 and was given the responsibility of resource planning and mobilization for effective implementation of the Five-Year Plans.
- As the economy progressed, the financial system was increasingly called upon to meet the financial needs of the economy.
- The monetary and credit planning in India has to be aligned with economic planning for effective and efficient achievement of the targets set in the Five-Year Plans.
- The role of Reserve Bank is expanding in the areas of foreign exchange, financing of public debt and co-ordination with the international financial institutions received utmost significance during this period.

- The expanding economic activity also led to the establishment of new financial institutions specially for providing long-term and short-term finance to various sectors of the economy.
- The policy orientation continued to be focused towards securing socio-economic goals with focus on balanced regional growth alongside achieving equity in income distribution. For achieving socio-economic goals, improvement in the conditions of the farmers received highest priority.
- As a major step towards facilitating the implementation of the national policies, the Reserve Bank of India took the initiative of setting up of the **Rural Banking Enquiry Committee** with the objective of identifying the gaps in rural finance and suggesting appropriate steps towards strengthening it.

Department of Banking Development

  - The Department of Banking Development was set up in 1950 which played a proactive role in developing the banking net-work and in creating an enabling environment for the banking system in the mobilization of savings in the economy.
  - This Department also attended to matters relating to industrial finance.
- In order to formulate integrated policy with regard to agricultural credit, **the All-India Rural Credit Survey** (1951) was conducted.
- The Survey Reports brought to focus the weaknesses in the banking structure and the need for ensuring adequate flow of finance to the hitherto neglected sectors of the economy.
- Accordingly, the Reserve Bank initiated several measures which included extension of banking facilities to semi-urban areas and instituted appropriate mechanisms for effectively addressing the problems of rural finance.

- Further, the Reserve Bank has also undertaken several initiatives for relieving the financing difficulties of medium and small-scale industries.
- The short-term requirements of the industrial sector are met by the banking system.
- There was a wide gap in meeting the credit requirements of the industrial sector.
- To bridge this gap the **first step** in this direction was the setting up of the **Industrial Finance Corporation (IFCI) in 1949**.
- With a view to further strengthening the provision of industrial finance on a much wider scale, **the State Financial Corporations Act** was passed in 1951 for establishing similar bodies at state levels. Further, With the establishment of the Industrial Credit and Investment Corporation of India in 1955 the credit outreach of the industrial sector was extended with focus on financing the private sector.
- The transformation of the Imperial Bank of India into the State Bank of India (SBI, 1955) and its Associate Banks as its subsidiaries constituted in expanding the sphere of banking.
- This was a major step forward towards expanding the banking network and extending credit to non-banked semi- urban and rural areas.
- This move was also expected to promote lending to preferred sectors
- The ambit of Reserve Bank's functional role further expanded with the enactment of Banking Companies (Amendment) Act, 1950.
- This amendment incorporated an important provision regarding licensing policy regarding opening of bank branches outside India. Further, another amendment to the Act in 1959 enlarged the scope of inspection to include inspection of foreign branches of Indian banks by the Reserve Bank.

- With the rising financing needs of the economy, the non-banking companies started growing up. Three was a need to protect the interests of the depositors.
- In order to bring the activities of non-banking companies into the ambit of regulation the **Department of Non-Banking Companies** was established in March 1966 for ensuring the safety and security of depositors.
- With the increasing functional role of the Bank and consequent expansion of its staff strength, the Bank required adequate infrastructural facilities. Accordingly, the **Premises Department** was set up in 1965
- The regulation of transactions in securities was undertaken by Government of India in close co-ordination with the Reserve Bank in 1956.
- Subsequently, the Bank's officers were also nominated on the Boards of East India Cotton Association and Bombay Oilseeds Exchange in the direction of infusing confidence and protecting the interests of banks, the Bank established the **Deposit Insurance Corporation** (1962).
- This was followed by the setting up of the **Agriculture Refinance Corporation (1963)** as a subsidiary of the Bank with the objective of providing refinance facilities to the institutions that deal with financing of short-term agricultural operations.
- The Industrial Development Bank of India was established in 1964 for providing long-term finance to industry.
- With a view to encouraging saving habits of the households and with a view to providing support to the capital market, the **Unit Trust of India came** in to existence in 1964.

Developments During 1980s

- In early eighties, the Bank embarked upon a major structural reorganization of its activities necessary for performing the expanding role of the Bank
- Based on the recommendations of the Reorganization Committee of the Reserve Bank of India set up by the then Governor, Dr. I.G. Patel, **changes were made by the Bank in its organizational structure.**

Department of External Investments and Operations (DEIO)

The Department of External Investments and Operations (DEIO) was established in 1986.

Role of DEIO

- Role of management and investment of foreign currency assets and gold,
- Managing the exchange rate of the rupee in line with the Bank's policy, handling external transactions on behalf of Government of India including transactions relating to the IMF, IBRD, ADB, etc.,
- Matters relating to gold policy,
- Membership of the BIS

Department of Economic Analysis and Policy (DEAP)

- On the recommendations of the **Reorganization Committee (1981),** the **Economies Department** was reorganized as **Department of Economic Analysis and Policy (DEAP)** with a view to enabling the Department to conduct economic policy research of a high order that serves as a powerful back up for policy formulation.

- The Department, acts as the economic think-tank of the Bank.

DEAP is divided into five major units, viz.,

- Internal finance unit
- International finance unit
- Prices unit
- Production, capital markets and national economic parameters unit
- General unit

The Department undertakes policy-oriented economic research and is a primary source of data relating to monetary aggregates, balance of payments, household financial savings, state finances and capital markets.

The Department brings out seven major publications - five annual, viz.,

- The Annual Report,
- Report on Trend and Progress of Banking in India,
- Report on Currency and Finance,
- Handbook of Statistics on the Indian Economy and Finances of State Governments;
- A monthly Bulletin along with its Weekly Statistical Supplement

Further, the Department is charged with the responsibility of conducting **two major surveys**, viz.,

I. Foreign Collaboration Survey and
II. the Survey on Ownership Pattern of Government Rupee Securities

- The Rural Planning and Credit Cell (RPCC) was established in 1979 to ensure proper implementation of multi-agency approach to credit disbursal in rural areas.
- The RPCC and ACD were merged with NABARD in 1982.

Organisational Developments: 1990 Onwards

- The Banking Regulation Act assigned extensive supervisory powers to the Department of Supervision.
- These powers were in line with important developments in the financial sector viz.

I. There was a marked expansion in banking activity and
II. large-scale computerization in banking sector

The Press Relations Division

The Press Relations Division (PRD) constituted in 1969 as a part of Economics Department of the Bank was moved to the Secretary's Department in 1970 to handle the public and the press relations matters.

MONETARY POLICY DEPARTMENT (MPD)

Mandate and Objectives

According to the Reserve Bank of India Act, 1934, "to regulate the **issue of Bank notes** and keeping of reserves with a view to securing **monetary stability** in India and generally to operate the currency and credit system of the country to its advantage; to have a **modern monetary policy framework** to meet the challenge of an increasingly complex economy, to maintain **price stability** while keeping in mind the objective of growth".

Main Functions:

I. Acts as a secretariat for the Monetary Policy Committee (MPC) assists the MPC in formulating the monetary policy
II. Provides technical inputs to the MPC such as short-term and medium-term growth and inflation projections
III. Plays a key role in implementing monetary policy by assessing and forecasting liquidity conditions
IV. Participates in Financial Markets Committee (FMC) which meets daily to guide financial markets operations including liquidity management
V. Monitors and assesses transmission of monetary policy on a regular basis
VI. Prepares Monetary Policy Report (MPR)
VII. Compiles sector-wise and industry-wise bank credit data
VIII. Monitors compliance with CRR/SLR maintained banks
IX. Acts as a nodal department for the Bank to act as a lender of the last resort

Department of Banking Regulation (DBR)

- The Department of Banking Regulation exercises regulatory powers in respect of Commercial Banks, Local Area Banks (LABs) and Regional Rural Banks (RBs).
- DBR ensure licensing, branch expansion and maintenance of statutory reserves, management and methods of operations, amalgamation, reconstruction and liquidation of banking companies.

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Department of Banking Supervision (DBS)

In Indian financial system, DBS has been entrusted with the responsibility of supervising scheduled commercial banks (SCBs). The Department plays a central role in ensuring systemic stability.

Department of Government and Bank Accounts (DGBA)

- The Department of Government and Bank Accounts (GBA) discharges the core central banking function of acting as banker to the government and banker to banks.
- It maintains principal deposit accounts of Central and State Governments
- Grants ways and means advances to Central and State Governments
- Frames the accounting policy of the Reserve Bank
- Attends to matters relating to government business

Internal Debt Management Department (IDMD)

- Section 17(1) of the RBI Act enables the Reserve Bank to undertake the business of management of public debt.
- The bank has the right and obligation to transact business of management of public debt when entrusted by the Central Government.

The main activities of the Internal Debt Management Department

- Managing the Government's debt in a risk efficient and cost-effective manner

- Providing innovative and practical solutions for government's debt management
- Building a robust institutional framework of primary dealers (PDs).

*The **specific functions** of the Department are discussed below:*

I. Government Borrowing
II. Dealing in Operations
III. Primary Dealers
IV. Research
V. Management Information Systems (MIS)
VI. Central Debt

Foreign Exchange Department (FED)

The Foreign Exchange Regulation Act, 1973 (FERA) was repealed and a new Act called the Foreign Exchange Management Act, 1999 (FEMA) came into force with effect from June 1, 2000.

Financial Inclusion and Development Department (FIDD)

The functions of the Department are:

- To formulate macro policy to strengthen credit flow to the priority sectors
- To ensure priority sector lending
- Credit flow to MSME sector and to rehabilitate sick units through timely credit support;
- To strengthen institutional arrangement, such as, state level bankers committee and Lead Bank Scheme to facilitate these objectives.

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Department of Non-Banking Regulation (DNBR)

DNBR's principal functions are:

- To frame policies for regulation and supervision of NBFCs.
- Issuance and cancellation, if required, of Certificate of Registration (COR) to NBFCs.
- Consultation and co-ordination with other departments of the Reserve Bank, other finance sector regulators, industry and various other stakeholders including Centre and State Governments in policy and other related matters

Human Resource Management Department (HRMD)

Human Resource Management Department (HRMD) essentially facilitates the Reserve Bank's central banking activities by:

i. Creating an enabling environment to enhance the efficiency of the organisation
ii. Drawing out from the staff the very best by a system of proper placements, incentives, and
iii. Creating an atmosphere of trust, a certain security of expectations and a feeling that the organisation cares about the well-being and personal aspirations of the staff.

The functions of HRMD are:

To evolve and implement policies for Recruitment, Placement, Promotions and career progression, Performance and potentiality appraisal, Training, development and skill upgradation etc.

Inspection Department

Inspection Department was set up in 1935 when the Reserve Bank of India commenced its operations.

Types of inspections

Risk Based Internal Audit (RBIA)

Under the Risk Based Internal Audit (RBIA), the Inspection Department provides independent and objective opinion to the management on whether or not the Reserve Bank's business processes and risks are being properly managed.

Information System Audit (ISA)

Information Security (IS) audit is carried out as part of the RBIA (Risk Based Internal Audit) framework to evaluate risk control measures in Information Systems used in the Reserve Bank.

Concurrent Audit (CA)

As a part of internal control mechanism, all the business units are required to get their transactions (mainly financial transactions) audited by external chartered accountant firms.

Control Self-Assessment Audit (CSAA)

This is a self-assessment/health check-up exercise to assess gaps in risk controls so that timely reviews are made and corrective action taken/initiated to address the gaps.

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Consumer Education and Protection Department (CEPD)

The Customer Service Department was renamed as Consumer Education and Protection Department (CEP) in November 2014.

Major Functions:

- Dissemination of instructions/information relating to customer service and grievance redress by banks and the Reserve Bank of India;
- The grievance redressal mechanism in respect of services rendered by various offices/departments of the Reserve Bank
- Administering the Banking Ombudsman Scheme
- Acting as a nodal department for the Banking Codes and Standards Board of India (BCSBI)

Feedback's structure and Policy

As a 360-degree communication process, the Reserve Bank actively seeks feedback from stakeholders on regulations through its website.

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QUESTION AND ANSWER

Q1. RBI is a _________ body established in the year ____ under the____________ act.

Ans: statutory body, 1935, Reserve Bank of India Act, 1934

Q2. Traditional functions of Central Banks are ________and ________.

Ans: Note issue function and Acting as a banker to government

Q3. The __________Commission suggested the establishment of a Central Bank to be called the Reserve Bank of India.

Ans: Hilton Young Commission

Q4. The RBI was nationalized on __________in terms of the Reserve Bank of India (Transfer to Public Ownership) Act, 1948.

Ans: January 1, 1949

Q5. The RBI's responsibility as bankers' bank was two-fold i.e, as the lender of last resort in an emergency and ____________.

Ans: protection of depositors' interest

Q6. ___________ system is the system of banking that involves private firms or individuals who act as banks by providing financial services such as loans and accepting deposits.

Ans: Indigenous banking

Q7. The transformation of the __________into the State Bank of India in July 1955 was mainly done to extend bank branches across the country to stimulate banking activity.

Ans: Imperial Bank of India

Q8. The RBI is fully owned by the__________.

Ans: Central Government

Q9. The ____________ department examined the problems of agricultural credit.

Ans: agricultural credit department

Q10. The Department of Research and Statistics (DRS) has two separate divisions known as ___________ and ___________.

Ans: Economic Intelligence and Economic Research

Q11. The Department of Banking Regulation ensure licensing, branch expansion and maintenance of statutory reserves. (true/false)

Ans: True

Q12. DEAP stands for ___________?

Ans: Department of Economic Analysis and Policy (DEAP)